

CHINA EAGLE

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 March 2004
(Expressed in Hong Kong dollars)

	2004	2003
	\$'000	\$'000
Operating activities		
Profit/(loss) from ordinary activities		
before taxation	25,499	(12,360)
Adjustments for:		
– Depreciation	977	815
– Waiver of loan from a former director	–	(7,271)
– Amortisation of positive goodwill/(negative goodwill)	92	(50)
– Amortisation of other intangible assets	87	–
– Share of losses of associates	1	24
– (Gain)/loss on disposal of fixed assets	(510)	578
– Interest income	(401)	(759)
– Finance costs	780	1,251
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Operating profit/(loss) before changes in working capital	26,525	(17,772)
Increase in deposits with brokers and financial institutions	(64,323)	–
(Increase)/decrease in other investments	(928)	3,800
Decrease in inventories	2,675	3,267
Increase in trade and other receivables	(7,489)	(1,336)
(Decrease)/increase in trade and other payables	(74,860)	508
Decrease/(increase) in amounts due from related parties	12,475	(25,341)
Increase in amounts due to related parties	87,044	–
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Cash used in operations	(18,881)	(36,874)
Interest received	401	759
Interest paid	(1,195)	(595)
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Net cash used in operating activities	(19,675)	(36,710)
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	Note	2004 \$'000	2003 \$'000
Investing activities			
Payment for purchase of fixed assets		(2,966)	(393)
Proceeds from disposal of fixed assets		4,075	27,046
Acquisitions of subsidiaries, net of cash acquired		(11,968)	(119,998)
		<u>(10,859)</u>	<u>(93,345)</u>
Financing activities			
Issue of shares			
– share capital		79,600	–
– share premium		15,008	–
		<u>94,608</u>	<u>–</u>
Net cash from financing activities		<u>94,608</u>	<u>–</u>
Net increase/(decrease) in cash and cash equivalents		64,074	(130,055)
Cash and cash equivalents at 1 April		19,902	149,957
Cash and cash equivalents at 31 March	26	<u>83,976</u>	<u>19,902</u>

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Notes to cash flow statement

The major non-cash transactions incurred during the year were as follows:

(a) *Conversion of convertible notes*

Pursuant to the acquisition agreement dated 10 April 2002, First and Second Convertible Notes (issued on 22 April 2002 and 10 July 2002 respectively) amounting to \$75,000,000 were issued to Link Zone International Limited as the balance of total consideration of \$195,000,000.

These Notes were issued up to an aggregate principal amount of \$75,000,000 due 2004, convertible into shares of the Company at the option of the holders. The Notes were in registered form in the denomination of \$500,000 each or integral multiples thereof. On 17 July 2003, the Notes totalling \$51,000,000, comprising the entire amount of the First Notes and partial amount of the Second Notes of amounts \$37,500,000 and \$13,500,000 respectively were converted into 425,000,000 ordinary shares of \$0.10 each (note 27). The conversion price was \$0.12 per ordinary share.

(b) *Acquisition of a subsidiary*

On 31 March 2004, the Group acquired the entire share capital of Bestly Legend Limited (“Bestly”) at the consideration of \$300,000,000. The acquisition was financed by the issue of mandatory convertible notes of the equivalent amount to Shinning Crown Holdings Inc. (“Shinning Crown”). The consideration was settled by cash payment of \$300,000,000 made by Shinning Crown directly to Mr Han Yuejun, the previous shareholder of Bestly (note 5).

The notes on pages 22 to 66 form part of these financial statements.